

13 September 1983

SITREP

YUGOSLAVIA

According to press [] reports, Yugoslavia and Western commercial bankers signed on 9 September the much delayed agreement providing \$3.8 billion in debt refinancing and new credits. This agreement completes the 1983 financial rescue package for Yugoslavia in which commercial banks, Western governments, the IMF, BIS, and World Bank have contributed more than \$6 billion in debt relief and new money. The bank agreement provides \$600 million in new medium-term credits, a rollover of \$1.4 billion in maturing medium and long-term credits, a two-year extension on non-trade related short-term debt, and a revolving credit line for short-term trade credits. The short-term credit extensions and revolving credit line total \$1.8 billion. The medium-term refinancing and new credits carry a 6-year maturity with a 3-year grace period and interest rates of 1.875 percent point over LIBOR or 1.75 percentage point over prime at the lender's option. The interest rates for the refinanced short-term credits will be 1.375 percentage point over LIBOR or 1.25 percentage point over prime. []

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the first disbursement of new bank credits, which could run as high as \$360 million, should occur within the next few weeks.

The second and third disbursements will be contingent upon Yugoslavia's initiating discussion with the IMF on a

stabilization program for 1984 and adequate disbursement of

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credits provided by Western governments. [REDACTED]

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The total package provides Yugoslavia with enough financing to ride out this year, but it will not restore the country to solvency. We estimate that the Yugoslavs will need about \$1.5 billion in debt relief or new credits from governments and banks next year. Arranging another rescue package may be even more difficult next year. [REDACTED] some

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commercial bankers and governments believe that a formal rescheduling is the only way to ensure equitable burdensharing among creditors. Belgrade apparently remains adamant, however, about avoiding a rescheduling, and at least, some Yugoslav leaders will likely resist more concessions to creditors in return for financial assistance. [REDACTED]

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Yugoslavia has requested \$341 million in credit guarantees from the US Commodity Credit Corporation (CCC) for the purchase of US agricultural commodities in fiscal year (FY) 1984.

Normally the guaranteed loans are for a three-year period with interest rates set by US banks at a fraction above the US prime rate or LIBOR. The new request represents an increase of \$86 million over that sought in early July. In FY 83 Yugoslavia received roughly \$235 million in CCC export financing. [REDACTED]

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POLAND

Poland and Western banks agreed on terms for rescheduling 1983 debt during talks in Vienna in mid-August. [REDACTED] described the meetings as acrimonious and said that each side came close to walking out several times. The memorandum of understanding reschedules 95 percent of principal due the banks in 1983 over 10 years, including a five-year grace period. The banks insisted that the interest on unrescheduled debt and the remaining 5 percent of principal be paid by the end of the year, but they agreed to relend to Poland 65 percent of the interest payments as trade credits. Terms for this year are somewhat more generous than in 1982 but much tougher than the 20-year rescheduling of all debt service that Warsaw proposed when talks opened in February. [REDACTED]

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Warsaw will have trouble paying by the end of the year the estimated \$700 million required by the agreement in addition to meeting some \$900 million in payments due to the banks under the agreements concluded in 1981 and 1982. Poland apparently is falling \$300-\$400 million short of its originally projected payments capacity of \$1.9 billion because new credits are less than expected. The agreement will give the banks a further lead over government creditors, who expect to begin Paris Club negotiations in October. A task force of the Paris Club will meet on 15 and 16 September to discuss technical questions. The governments have not rescheduled since 1981 as a sanction against the martial law regime, and Warsaw has made virtually no payments to them in the meantime. [REDACTED] the banks may

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propose in October or November to reschedule 1984 obligations under the same terms--a move that could further complicate the efforts of Paris Club creditors to receive Polish payments.

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ROMANIA

[redacted] the Fund has delayed disbursement of \$100 million which Romania was scheduled to draw on 31 July because of Bucharest's failure to meet IMF guidelines on exchange rates, interest rates, and energy prices. The current standby program, which expires in July 1984, still offers about \$500 million for Romanian borrowing. The IMF wants an accelerated depreciation of the Romanian lei to make exports more competitive, an increase in natural gas prices to align them with prevailing West European prices, and an increase in interest rates to offset inflation. Romania is arguing that it needs more time to study the effects of last year's economic policy changes. Further discussions between the parties are scheduled for 14 September. [redacted]

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[redacted] Romania's foreign trade continued to contract in the first five months of this year. Hard currency exports were down by 7.6 percent, while imports declined 11.0 percent. [redacted]

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EURA/EE/NE

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East Germany

Rumors persist that East Germany has asked West Germany for another "jumbo" loan of as much as 3-4 billion marks [REDACTED]

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[REDACTED] We do not believe that East Berlin needs such sums to avoid default but might want such a loan to reduce its interest expenses and improve the maturity structure of its debt. [REDACTED]

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Bonn almost

certainly would demand East Berlin concessions in "humanitarian" areas--such as a reduction in the daily minimum currency exchange requirement for Western visitors--made in June before granting any new credits. We believe that East Berlin may make some concessions, but will try to keep them to the minimum necessary to satisfy Bonn and West German public opinion. [REDACTED]

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Meanwhile, East Berlin reported a trade surplus with non-socialist countries in the first half even though trade with West Germany was heavily in deficit. Imports ^{from West Germany} rose 33 percent while exports grew only 2 percent over 1982's first half. We believe the continued overall trade surplus will help sustain the

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cautious optimism of some Western bankers, who appear more
receptive to lending to East Germany.

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